MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BAC1644 – PRINCIPLE OF FINANCE

(All sections / Groups)

6th MARCH 2018
2.30 p.m. - 5.30 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages with 5 Questions only.
2. Answer **ALL** questions. All answers must be written in the answer sheets provided.

Attempt all questions. All questions carry equal marks and the distribution of the marks for each question is given.

QUESTION 1

Coffee Prince has projected the following budget for the first quarter of 2018:

Details/Month	January	February	March
Credit sales (RM)	600000	650000	580000
Credit purchases (RM)	70% of sales	70% of sales	70% of sales
Cash disbursement			
Wages and taxes (RM)	10% of sales	10% of sales	10% of sales
Interest(RM)	10000	10000	10000
Equipment purchases (RM)		84000	156000

The company predicts that 5% of its credit sales will never be collected. 35% of its sales will be collected in the month of the sale, and the remaining 60% will be collected in the following month. Credit purchases will be paid in the month following the purchase and all purchase are on credit. Credit purchase is 70% from the sales.

In December 2017, credit sales were RM515,000. Using this information, complete the following cash budget:

	January	February	March
Beginning cash balance	RM97,000		
Cash receipts			
Cash collections from credit sales			
Total cash available			
Cash disbursements			
Purchases			
Wages, taxes, and expenses			
Interest			
Equipment purchases			
Total cash disbursements			
Ending cash balance			

[TOTAL 20 MARKS]

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QUESTION 2

A. Image Corporation is growing quickly. Dividends are expected to grow at a 40 percent rate for the next three years, with the growth rate falling off to a constant 6.5 percent thereafter. If the required return is 13 percent and the company just paid a RM3.25 dividend, what is the current share price?

(8 marks)

B. Below are the details of Sabah Bond and Sarawak Bond :

Details	Sabah Bond	Sarawak Bond
Coupon rate	10%	10%
Coupon payment	Semiannual	Semiannual
Price	At par value	At par value
Maturity	5 years	20 years

a. If interest rates suddenly rise by 4%, what is the percentage change in the price of the two bonds?

(6 marks)

b. If interest rates suddenly fall by 4% instead, what would be the percentage change in the price of the two bonds?

(6 marks)

[TOTAL 20 MARKS]

QUESTION 3

Techno Berhad has the following two possible projects. The required return is 12%.

Year / Project	0	1	2	3	4
Project M (RM)	-27,000	13,000	11,400	13,800	9,400
Project N (RM)	-50,000	22,000	21,000	20,000	19,000

a. What is the profitability index for each project? Which project should the company accept?

(8 marks)

b. What is the net present value (NPV) for each project? Which project should the company accept?

(9 marks)

Continued...

c. Based on the profitability index (PI) and NPV calculated above, which project should the company accept? Why?

(3 marks)

[TOTAL 20 MARKS]

QUESTION 4

A. Grill Bhd has a debt-equity ratio of 1.5. It's Weighted Average Cost of Capital (WACC) is 9 percent, and its cost of debt is 5 percent. There is no corporate tax.

(a) What is Grills' cost of equity capital.

(3 marks)

(b) What would the cost of equity be if the debt-equity ratio were 2.0? What if it were 0.5? What if it were zero?

(9 marks)

B. Lavender Industries stock has a beta of 1.25. The company just paid a dividend of RM0.75, and the dividends are expected to grow at 4 percent. The expected return of the market is 11.5 percent, and Treasury bills are yielding 5 percent. The most recent stock price is RM81.

(a) Calculate the cost of equity using the dividend growth model method.

(3 marks)

(b) Calculate the cost of equity using Capital Assets Pricing Model (CAPM) method.

(3 marks)

(c) Why do you think your estimates in (a) and (b) are so different?

(2 marks)

[TOTAL 20 MARKS]

QUESTION 5

A. You have your choice of two investment accounts. Investment A is a 10-year annuity that features end-of-month RM1,680 payments and has an interest rate of 8 percent compounded monthly. Investment B is a 10 percent annually compounded lump sum investment, also good for 10 years. How much money would you need to invest in B today for it to be worth as much as Investment A 10 years from now?

(6 marks)

Continued...

B. Prepare an amortization schedule for 3-year loan of $80,000. The interest rate is 10% per year, and the loan calls for equal annual payments. How much interest is paid in the third year? How much total interest is paid over the life of the loan?

(10 marks)

C. Beginning three months from now, you want to be able to withdraw RM2,500 each quarter from your bank account to cover college expenses over the next four years. If the accounts pays 0.65 percent interest per quarter, how much do you need to have in your bank account today to meet your expense needs over the next four years?

(4 marks)

[TOTAL 20 MARKS]

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